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➔ **Rollercoaster Ride:** In the first quarter, a swift double-digit drop was followed by a rally that reversed the period's losses and left the S&P 500 Index nearly unchanged year-to-date (as of April 7). Volatility will likely persist through year-end, given concerns over U.S. and global economic growth, commodities, monetary policy, and geopolitics. Investors should periodically rebalance portfolios to their goals, keeping potential tax implications in mind.

➔ **Markets in Review:** Last week equities were mostly lower, with the S&P 500 Index down 1.2%, while international equities, as represented by the MSCI EAFE Index, rose 0.6%. Bonds rose on the week, with the 10-year Treasury yield at 1.72%, versus 1.77% in the prior week. Commodities overall, as measured by the Bloomberg Commodity Index, rose 1.4% last week, as WTI crude rebounded 8.0%, to \$39.7, while gold rose 1.4%, to \$1,239.4 per ounce.

➔ **Looking Ahead:** U.S. retail sales are expected to rise 0.1% month-over-month and the U.S. consumer price index (CPI) is expected to be up 1.0% year-over-year for March. Also expect the Federal Reserve's Beige Book on Wednesday and the University of Michigan's consumer confidence measure on Friday. In the eurozone, the CPI is expected to show -0.1% inflation for March, after a -0.2% revised reading.

Rollercoaster Ride

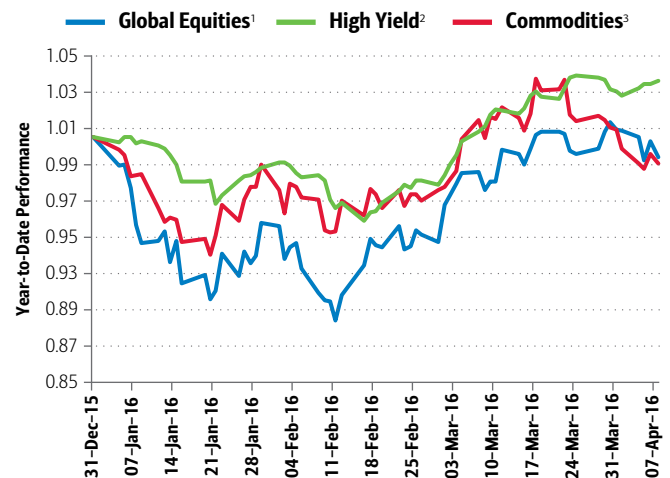
While the S&P 500 Index is nearly unchanged year-to-date (as of April 7), it had a swift double-digit decline until mid-February, followed by a rally that reversed losses for the first quarter. We anticipate that investors will face such episodic volatility through the rest of the year, given uncertainty over economic growth, both domestic and international; protracted rebalancing in the petroleum and broader commodity markets; questions about the efficacy of central bank policies; and several geopolitical risks. Periodic rebalancing of portfolios to one's goals should mitigate some of the risks.

A volatile quarter

With the S&P 500 Index's roughly 10% drop and 13% rally off the lows in the first quarter, it was the eighth-biggest reversal in the past 350+ quarters, according to the BofA Merrill Lynch (BofAML) Global Research Equity Strategy team. In March alone, the S&P 500 gained 6.6%, which proved to be the index's best March return since 2009 and its fifth-best since 1935. The bounce-back was generally led by the most beaten-down areas of the market, including smaller, lower-quality and commodity-related stocks. Amid the lower interest rate backdrop on dovish Federal Reserve comments, the higher-yielding bond proxies did well—Telecom and Utilities both

posted double-digit returns (of +15% each) in the first quarter. (See Exhibit 1.)

Exhibit 1: Lower-quality assets have fared better than the broader market year-to-date



¹MSCI All Country World Index
²Merrill Lynch High Yield Master II Index
³Bloomberg Commodity Index

Source: Merrill Lynch Chief Investment Office.

Outside the U.S., European and Japanese stocks struggled during the quarter. European banks continued to do poorly, as investors questioned the effect of negative interest rates on

their profitability. The Nikkei, meanwhile, lost 17% of its value this year (as of April 6) as the yen has continued to strengthen.

Get used to it

We note that S&P 500 stocks ripped higher from March 2009 to April 2011, rising roughly 102%, but in the last two years the index has bounced between 1850 and 2130, about a 15% range. We think stocks may remain range-bound for some time. Moreover, stocks, especially those in Developed Markets, seem less responsive to central bank stimulus, often viewing it skeptically. The recent introduction of negative interest rates in Japan and further cuts into negative territory by the European Central Bank have not helped those markets, and their currencies have actually strengthened, which is the opposite of what these policies are trying to achieve. We think corporate profits and sales growth, which are derivatives of improving economic activity, will matter more to stocks.

Finally, cash-flow-oriented investments such as dividend-paying stocks, and quality investments such as Investment Grade bonds and (for the tax-sensitive investor) high-quality municipal bonds should be important holdings in this environment. In the first quarter, despite the risk-off/risk-on nature of the markets, higher-quality stocks did better. The BofAML Global Research Equity Strategy team believes this should remain the case in 2016, as these remain cheap, under-owned and a decent hedge against higher volatility.

Risks remain

We believe there is still ample risk that may lead to further volatility in the rest of 2016. We see slowing momentum in the economic data, which may chip away at the slow but steady growth in the U.S. and abroad. The BofAML Global Research Economics team has lowered its 2016 estimate for U.S. gross domestic growth from 2.0% to 1.7% amid a softening outlook

and a more dovish Federal Reserve. A slowly rising wage market, combined with uncertainty over energy, could challenge corporate earnings in the near term. We also see several key risk events looming (see Exhibit 2). These events, including the U.S. election cycle, geopolitical risk in Europe, and a potential June Fed hike, are flashpoints for market and policy uncertainty with the potential to tip market sentiment or create pops in volatility.

Exhibit 2: Mark Your 2016 Calendar



Risk Event	Date
169 th OPEC Meeting	June 2
June FOMC Meeting	June 14–15
British Referendum Vote	June 23
Republican National Convention	July 18–21
Democratic National Convention	July 25–28
G-20 Hangzhou Summit (China)	September 4–5
September FOMC Meeting	September 20–21
Effective Date for SEC Money Market Reform	October 14
U.S. Presidential Election	November 8
December FOMC Meeting	December 13–14

Source: Merrill Lynch Chief Investment Office.

We recommend that investors remain diversified and execute on a disciplined rebalancing plan, which we believe may help them avoid poor market timing and better manage portfolio risk. Investors devote time to creating a financial plan that reflects their goals but should not neglect a disciplined plan to periodically rebalance their portfolios, taking into account potential tax implications in the process. Incorporating a regular rebalancing plan imposes a discipline to buy low and sell high. Research shows that most investors, driven by various degrees of greed and fear, tend to do the opposite. Rebalancing does involve certain costs, such as transaction fees, possible capital gains taxes, and potential performance drags in the near term. However, it leads to portfolios that exhibit lower volatility and thus better risk-adjusted returns over the long term.

Portfolio Strategy: We believe the prudent approach to range-bound markets with potential for episodic volatility is to maintain high-quality assets in a portfolio. High-quality large-capitalization firms with global franchises, solid balance sheets, stable earnings, healthy free cash flow and a history of growing dividends form a part of our portfolio strategy theme. Accordingly, we remain cautious on lower-quality assets, such as High Yield corporate debt. Despite recent spread tightening, we believe there is scope for High Yield default rates to increase over time from current levels of around 4.6%. In our estimation, the market is pricing the S&P 500 as fairly valued—neither too cheap, nor too expensive. Hence, we do not see significant enough upside in the near future to justify sizable overweight positions. With our near-term expectations for higher volatility and range-bound markets, we favor a balanced portfolio approach, which may require periodic rebalancing to maintain alignment with specific goals.

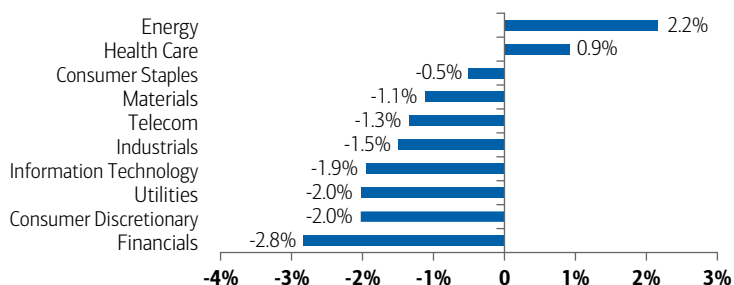
Markets in Review

Trailing Economic Releases

- On Thursday, the Federal Reserve reported consumer credit for February increased by \$17.2 billion, better than the consensus estimate of an increase of \$14.9 billion. This comes after a \$10.5 billion expansion in January.
- On Friday, the U.S. Census Bureau reported that wholesale inventories fell 0.5% in February. This was a larger contraction than the consensus estimate of -0.2% and offsets January's reading of 0.3%.
- On Wednesday, in the eurozone, Markit reported that its Retail PMI measure for March worsened to 49.2, versus February's reading of 50.1. The reading, however, remains better than January's reading of 48.9.

S&P 500 Sector Returns (as of last Friday's market close)

S&P 500 Sector Total Returns (week-to-date)



Equities

	Level	Total Return in USD (%)		
		WTD	MTD	YTD
DJIA	17,577.0	-1.2	-0.6	1.6
NASDAQ	4,850.7	-1.3	-0.4	-2.8
S&P 500	2,047.6	-1.2	-0.5	0.8
S&P 400 Mid Cap	1,427.2	-1.7	-1.2	2.5
Russell 2000	1,097.3	-1.8	-1.5	-3.0
MSCI World	1,632.2	-0.4	-0.9	-1.2
MSCI EAFE	1,625.4	0.6	-1.5	-4.5
MSCI Emerging Mkts	816.8	-1.1	-2.3	3.2

Fixed Income

	Yield (%)	Total Return in USD (%)		
		WTD	MTD	YTD
ML US Broad Market	2.03	0.4	0.4	3.5
ML 10-Year US Treasury	1.72	0.7	0.6	5.2
ML US Muni Master	1.94	0.6	0.7	2.3
ML US IG Corp Master	3.14	0.5	0.5	4.5
ML US HY Corp Master	8.30	0.5	0.5	3.7

Commodities & Currencies

	Level	Total Return in USD (%)		
		WTD	MTD	YTD
Bloomberg Commodity	159.4	1.4	0.3	0.7
WTI Crude \$/Barrel ¹	39.7	8.0	3.6	7.2
Gold Spot \$/Ounce ¹	1,239.4	1.4	0.5	16.8

Level	Current	Prior Week End	Prior Month End	2015 Year End
EUR/USD	1.1	0.1	0.2	4.9
USD/JPY	108.1	-3.2	-4.0	-10.1

Source: Bloomberg.¹ Spot price returns. All data as of last Friday's close. Past performance is no guarantee of future results.

Looking Ahead

U.S. retail sales are expected to rise 0.1% month-over-month and the U.S. consumer price index (CPI) is expected to be up 1.0% year-over-year for March. Also expect the Federal Reserve's Beige Book on Wednesday and the University of Michigan's consumer confidence measure on Friday. In the eurozone, the CPI is expected to show -0.1% inflation for March, after a -0.2% revised reading.

Upcoming Economic Releases

- On Wednesday, U.S. retail sales for March are forecasted by consensus to increase 0.1% month-over-month. This would end a string of two consecutive negative readings.
- On Thursday, the consumer price index for March is expected to show a year-over-year increase of 1.0%, the same as February's reading. Meanwhile, the core measure of the consumer price index, which excludes food and energy prices, is expected to increase 2.3% year-over-year.
- Also on Thursday, in the eurozone, the consumer price index is expected by consensus to fall 0.1% year-over-year for March. Meanwhile, the core measure of the consumer price index, which excludes food and energy prices, is expected to increase 1.0% year-over-year for March.

BofA Merrill Lynch Global Research Key Year-End Forecasts

S&P 500 Outlook	2016 E
Target	2,000
EPS	\$120.00
Real Gross Domestic Product	2016 E
Global	3.2%
U.S.	1.7%
Euro Area	1.5%
Emerging Markets	4.2%
U.S. Interest Rates	2016 E
Fed Funds	0.88%
10-Year T-Note	2.00%
Commodities	2016 E
WTI Crude Oil \$/Barrel	\$45.00
Gold \$/Ounce	\$1,232

All data as of last Friday's close.

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